AR02

1966 ANNUAL REPORT/UNITED CO-OPERATIVES OF ONTARIO

UCO

DEVELOPMENT BY DESIGN

UCO DIRECTORS' REPORT

1965-1966 BOARD OF DIRECTORS AND GENERAL MANAGER

Seated, left to right: H. K. Stillman, Campbellford, Director, Zone 3; H. S. Forrester, Mallorytown, Director, Zone 2; R. S. McKercher, Vice-President, Dublin, Director, Zone 7; F. G. Cryderman, President, Thamesville, Director, Zone 9; F. W. Hamilton, Vice-President, Guelph, Director, Zone 6; L. Harman, General Manager, Weston; D. E. Stauffer, Bright, Director-at-Large.

Standing, left to right: N. M. Marshall, Norwich, Director, Zone 8; T. Langman, Hawkestone, Director, Zone 4; C. Hopkins, Haileybury, Director, Zone 1; T. R. Lougheed, Barrie, Director-at-Large; E. B. McCutcheon, Proton, Director, Zone 5; C. W. Huffman, Harrow, Director-at-Large.

UCO had a year of growth . . . a year of challenges. It was a year which brought many "alterations" to UCO but ended with "business better than usual".

In general, business in Canada was good last year and the Canadian economy continues to be buoyant. World demand for food is steadily increasing. Your Board is confident that UCO and its member co-operatives will play an important role in Ontario food production in 1966-67. Your Board is looking forward to another successful year of service. We urge you to read carefully the Financial Reports and the Management Report for details of the year's operations.

Next year and the years beyond will be successful with good planning to meet objectives. We chose the theme — **Development by Design** — for this year to highlight the role that planning plays in success.

W. H. McEwen, after sixty years' association with co-operatives (36 of these with Maritime Co-operatives) notes in a recent article that Co-operative progress is being made by co-ordination and integration. He reflects that growth and change and "great financial needs" are testing the local co-operatives' ability to meet their members' needs.

To a considerable extent, this is the case with many local Ontario co-operatives. It is the major reason why the most important "happening" in Ontario Co-operative business in the past decade is the much-discussed re-organization plan.

The re-organization plan has had a major impact on UCO. A year ago, 16 local Co-ops had merged, and became branches. In 1965-66, 23 locals merged, and a branch was formed at Beamsville, bringing the total to 40 branches. Nearly 23,000 individual members held equity in UCO at the year end. The wide acceptance of the direct membership is gratifying to your Board. We are confident that co-operators in Ontario will benefit greatly.

The year 1965-66 proved to be one of the busiest for your directors. They each spent an average of 55 days on the job for you (and away from their own businesses). It involved 65,000 miles of travel in total, by car, train and air to attend literally hundreds of meetings. The latter

include 12 regular two-day board meetings, two series of zone and district meetings of councillors and directors, local board and council meetings, and many others. The directors are involved in associated organizations, such as Co-operators Insurance Association, Ontario Federation of Agriculture, United Dairy and Poultry Co-operative, Twin Pines Apartments and inter-regional co-operatives.

Directors of retail co-operatives and CO-OP* Councillors at UCO Branches will have found the year a busy one also. In particular, Councillors have faced a major challenge. These men have assumed more direct responsibility for the whole of UCO, particularly in membership liaison and development. We see their role as being vital to UCO's success in the future.

It is our policy to be as basic as possible in the manufacture and distribution of goods. This has brought UCO into membership with several "inter-regional" co-operatives. These are Central Farmers Fertilizer Company, Chicago, Illinois; Interprovincial Co-operatives, Winnipeg, Manitoba; National Co-operatives, Albert Lea, Minnesota; and United Co-operatives, Inc., Alliance, Ohio. UCO purchases a wide range of products through these co-operatives.

We have increased UCO's membership activities during the past year with the introduction of the United Co-operatives NEWS. It is mailed to all members and councillors and selected patrons. It is also sent to all directors and managers of member co-operatives, and in some cases (at their request) to their members. It is mailed to staff of UCO and some associated organizations. Total circulation is now 40,000 per issue . Your organization will continue to provide members with news of UCO and its activities and to inform members on co-operative action in the province and elsewhere.

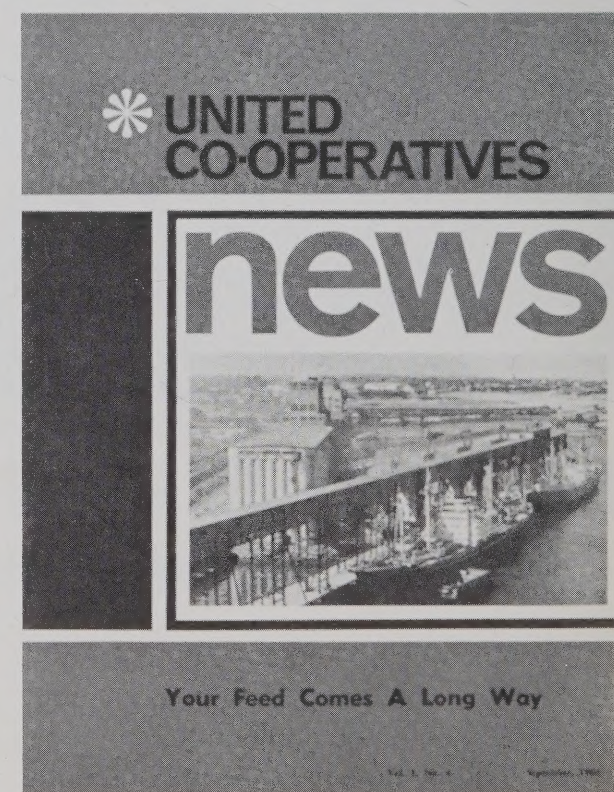
Members also were sent an Interim Report on UCO's financial position at mid-year, something which we have not done for members before.

UCO members should remind themselves that they have built an immensely useful farm supply and marketing service for themselves. It has taken place in an economy that moves more and more to big business. We want and expect to continue this service. Membership must support actively the growth of your co-operative. Last year, $900,000 was raised in debentures, much of it from members. We will raise in 1966-67 $2 million in debentures and $250,000 in preferred shares. Whether corporate or individual member, it's your co-operative. Support it and invest in it.

Your Board appreciates the advice and support from directors of member co-operatives and CO-OP Councillors during 1965-66. We also wish to say a sincere "thank you" to our General Manager and all of his staff for their contributions to the growth and continued success of UCO.

Fenton G. Cryderman

PRESIDENT



*Registered Trade Mark

UCO MANAGEMENT REPORT

"The present situation regarding co-operatives in the developed countries can be likened to a long distance runner who has for some time been stepping along well up with his competitors; suddenly some of these competitors choose to break away and race ahead. Have aging co-operatives sufficient powers of rejuvenation to chase after them?"

From: R. H. Gretton, FAO, Food and Agriculture Organization of United Nations at Congress of ICA, International Co-operative Alliance.

LEONARD HARMAN
General Manager

How well has our Ontario co-operative business succeeded in youthful speeding up during the past year? How well has the leadership of the 80,000 members of UCO and its associated local co-operatives advanced in Ontario's business? To what degree have we kept pace with changes in science and business administration and rapid growth of finances of the multinational corporations? How does our growth compare with that of schools and highways and other public services?

We should take satisfaction that (treating UCO statistics as if the branches still were local co-ops) distribution of feed, seed, fertilizer, petroleum and hardware increased 20% or $9 million from $43 million to $52 million. Volume in the three Marketing Departments, Livestock, Grain and Poultry increased by $2 million. Total volume of UCO product departments reached $113 million. Then the 40 retail branches showed volume increase of 20% to $20 million. Eliminating duplication between the 40 branches and the product departments left a total volume in UCO for the year of $118,664,019. That's a lot of business operated under the ownership and control of the 80,000 patron-members of UCO and its member co-operatives.

The major addition of cold storage for poultry at Petersburg came into effective operation. Grain is flowing to market through four new elevators where UCO participated in financing: Brigden (branch), Woodstock (branch), Blytheswood (Comber Co-op), Arner (Kingsville Co-op). The nine million dollars worth of fixed assets has been improved at many points.

UCO has maintained net earnings over $700,000 as an average figure for the past ten years.

Two years ago UCO was providing $20 million to finance its operations, one year ago $23 million, and this year $31 million.

In the past year and a half UCO has carried the cost and cushioned the shock of reorganizing 40 of the 100 local co-ops that are mainly in the same lines as UCO. The present mergers may represent one of the five most important developments in Ontario co-operative history. The other four would be the development of The United Farmers Co-operative 50 years ago, organizing 100 local co-operatives 20 years ago, and significant entry into feed, fertilizer and petroleum some twenty years ago and reorganizing into UCO 18 years ago. But these 40 mergers and the next 40 do not represent the speed-up to which Mr. Gretton and our competitors challenge us. We are only pulling up our sox for the race ahead.

The hundred-year-old co-operatives of Britain and Western Europe are proving very active. Witness the four stage plan for Co-op Denmark to merge all the consumer co-ops in that country. See Sweden increasing its volume and service while consolidating from 8,000 stores in 1960 to 3,000 in 1966 to 1,500 projected for 1970. At our Golden Anniversary in Ontario we spoke much of United Co-operatives of Ontario growing out of United Farmers Co-operative just 15 years earlier. Twenty years after the transfer to UCO the old UCO federation of 1948 will be largely replaced by the new UCO with its streamlined retail-wholesale structure and program.

OPERATIONS HIGHLIGHTS

Most marked improvements in product areas in UCO in the past year were in feed manufacturing and poultry

processing. Feed volume jumped 27% through the three UCO provincial plants last year. This facilitated a marked drop in manufacturing cost per ton and a marked increase in dollars of earnings on feed. The major addition of cold storage contributed to an encouraging earning in poultry processing compared with some operating loss in most of the previous five years. A new volume level of poultry was reached at 18 million pounds.

As yet, UCO has only been able to purchase less than a quarter of its fertilizer ingredients from Central Farmers Fertilizer Co-operative. But out of total earnings of $7 million by Central Farmers, UCO received over $50,000 in patronage returns. With lowered margins in manufacturing and retailing this was a most welcome reinforcement for the Ontario co-operative program.

Petroleum showed its best volume increase of the past four years. Very successful Fall and Spring Sales were major factors in higher hardware volume.

The two marketing operations, in livestock and grain, which operate on a commission basis with very low margins, account for nearly half of UCO's 100 million dollars of volume. Since UCO handles most of the Western slaughter and stocker cattle coming to the Toronto market, a marked drop in shipments from Western to Eastern Canada this year dealt UCO volume a severe blow. Of course, UCO continues as the leading seller of cattle in Eastern Canada.

After moderate earnings each past year in marketing Ontario cash grain, UCO faced its first loss along with a number of local co-ops and others in grain marketing. The corn crop which showed early promise of a better than average yield deteriorated rapidly as the adverse weather of the late 1965 summer months persisted through the Fall months. As a consequence, sales volume fell appreciably short of expectations in the early months of the year. The normal practice of forward selling of a fraction of the potential crop did not turn out at all well. The minimum takeover of Ontario winter wheat consequent to the shortest crop in several years is reflected in substantially lower revenue from that source.

"How are the branches doing?", is a frequent question much more easily asked then answered. In the first place the 40 have operated as UCO retail branches for the following periods: 4 for 15 months, 12 for twelve months, 6 for nine months, 11 for six months, 3 for three months, 4 — no months. One statistic is clear: dollar volume is up 18% which is generally more than in most local co-ops which have not merged. There appears to be new life and a more direct approach in the retail branches on the great Ontario co-operative programs of feed, fertilizer, petroleum and hardware.

From the 40 co-ops which have merged, UCO is operating retail distribution on a branch basis at 55 points. Through the 29 co-ops with regional management UCO manages retail services at 45 points. So UCO now manages retail services at 100 points. Of the 130 CO-OP feed mills in Ontario in addition to the three at Guelph, Peterborough and Kemptville, UCO now includes 47 at retail branches adding to 50. There are 30 mills in the 29 regionally managed locals: so UCO is managing 80 of the 130 CO-OP feed mills.

To handle the greater work and volume and to operate the 40 retail branches there has been a major increase in necessary number of UCO staff. At the end of 1964 this was 456, at 1965 this had increased to 786 and now at 1966 it is 1,103. Of these, 425 jobs were transferred from the 40 local co-ops as they became retail branches of UCO. A great deal of attention has been given to planning UCO jobs and to selection and development of people for them. The program has been shifting rapidly to the most modern approaches of "Management by Objective".

Going from no individual members two years ago to 23,000 now has provided marked opportunities for new aspects of the UCO member relations program. First came information on the new structure to these thousands of patrons and the transfer of their membership and investment to UCO. Now we look forward to some 40 branch meetings of members in January 1967 with the election of Councillors and Delegates. Then there are the new programs for active participation of the Co-op Councils throughout the year.

Two expense areas in the branches have increased significantly. In a number of the 40 in process of reorganization there was a lag in wage levels and benefits, at a time of general inflation of staff costs. Thus the new branches faced unusual upward adjustments in this area. Also the higher interest rates and larger requirements of funds brought higher money costs. Biggest struggle in the branches has been introducing and operating new and better policies and programs on credit to improve collections and to control money use.

UCO DIVISION MANAGERS

JULIAN SMITH
Manager, Distribution Division

HAMISH MacLEOD
Manager, Marketing Division

ALEX MILLER
Manager, Development Division

ROBERT J. WRIGHT
Manager, Secretary's Division

ED. E. CHORNEY
Manager, Treasurer's Division

A number of the 40 locals that merged represented many of those in the 100 UCO member co-ops which "had come out of great tribulations". Some had relatively unfavorable balance sheets and operating statements in recent years. Most of these were improving their operations using UCO management services, and most of the 40 are continuing better operating trends. Co-operators in locals which brought favorable earnings and a strong balance sheet to the merger should be confident that five and ten years in the future their locality will be better served than if they had declined or deferred reorganization. One of the best ways to strengthen UCO and advance Ontario's co-operative future would be for some of the most successful of the other 60 local co-ops to seek early merger.

The principles of merger now are well developed and well understood. The methods are tested. The immediate costs are proven and largely have been borne on the first 40. The savings and advantages of retail-wholesale integration now must be achieved. Some of these lie in co-ordinated management of nearby local branch units. Some lie in more advanced systems of records and information. Much work is going forward on both of these aspects.

ESTIMATED CHANGE IN ADMINISTRATION OF 100 RETAIL UNITS MAINLY IN SAME LINES AS UCO PRODUCT DEPARTMENTS

Year	Locally Managed	Regionally Managed	Retail Branches
1950	100	0	0
1962	50	50	0
1964	40	60	0
1965	35	49	16
1966	30	[illegible]	40
1967	26	22	52
1968	22	14	64
1969	17	7	76
1970	10	0	90

We should try to compare operations through the new integrated structure in 1970, not with what existed in 1965, but with what would have existed by 1970 had we not embarked on the mergers. This is complicated by the rate at which business generally is achieving the socially desirable trend toward high volume with low gross margins and low net earnings seen as a percentage of volume. Strong earlier co-operatives in some countries which paid as much as 10 percent patronage returns 50 years ago came to five percent 20 years ago and now struggle to maintain two or three percent. With all the strength of the corporation-owned chain stores in North America there probably is not one that could pay two percent patronage returns (or perhaps even one percent) and meet necessary "rental" to its investors on the funds they provide. We may expect to revise our ideas and our plans on the place and prospects of patronage returns in UCO and in most other co-operatives.

Board and Management of UCO repeatedly have given strong assurance to those local co-operatives which choose not to merge with UCO that their participation in UCO will be treasured as it has been. Obviously this is true when local co-ops handle 60 percent of the distribution going through UCO product departments. It will be true if and when they handle 20 percent or even 10 percent. UCO was able to serve a third of the locals that retained local management better than would have been possible if UCO had not undertaken regional management of two-thirds. Likewise UCO will be able to provide wholesale and other services better for continuing incorporated co-operatives than it would have been able to do if UCO had not entered retailing through branches.

FINANCING UCO

The most significant change in the business situation in Canada and many other countries during the past year has been tight money. Sources of finance and credit for farmers and householders have hot only become more expensive but have become much more scarce. This condition also prevails in the great majority of other business enterprises whether under corporate, co-operative or public ownership. Ontario co-operatives are in a similar position to other enterprises in finding limited sources of financing, an inhibiting factor in early growth.

Two major additions to UCO equity in the past two years have been in reserves and in preferred shares. Reserves from retained earnings and from the mergers have increased a million dollars, now amounting to $2,845,613. Preferred shares have come from nothing to over two million dollars, about half from mergers, and about half as sales for cash.

Your management, in consultation with your Board of Directors, is undertaking much sharper financial analysis on use of the 30 million dollars of funds provided through the organization. Proposed new and additional uses of funds already are subjected to a consistent measurement of "Return on Investment". Gradually we shall consider present uses of funds under the same microscope. This is a modern means of comparing where to use the money so it will contribute best to the success of the business. Projects with lowest return and least contribution to major Ontario co-operative programs must make way in co-operatives for more desirable applications.

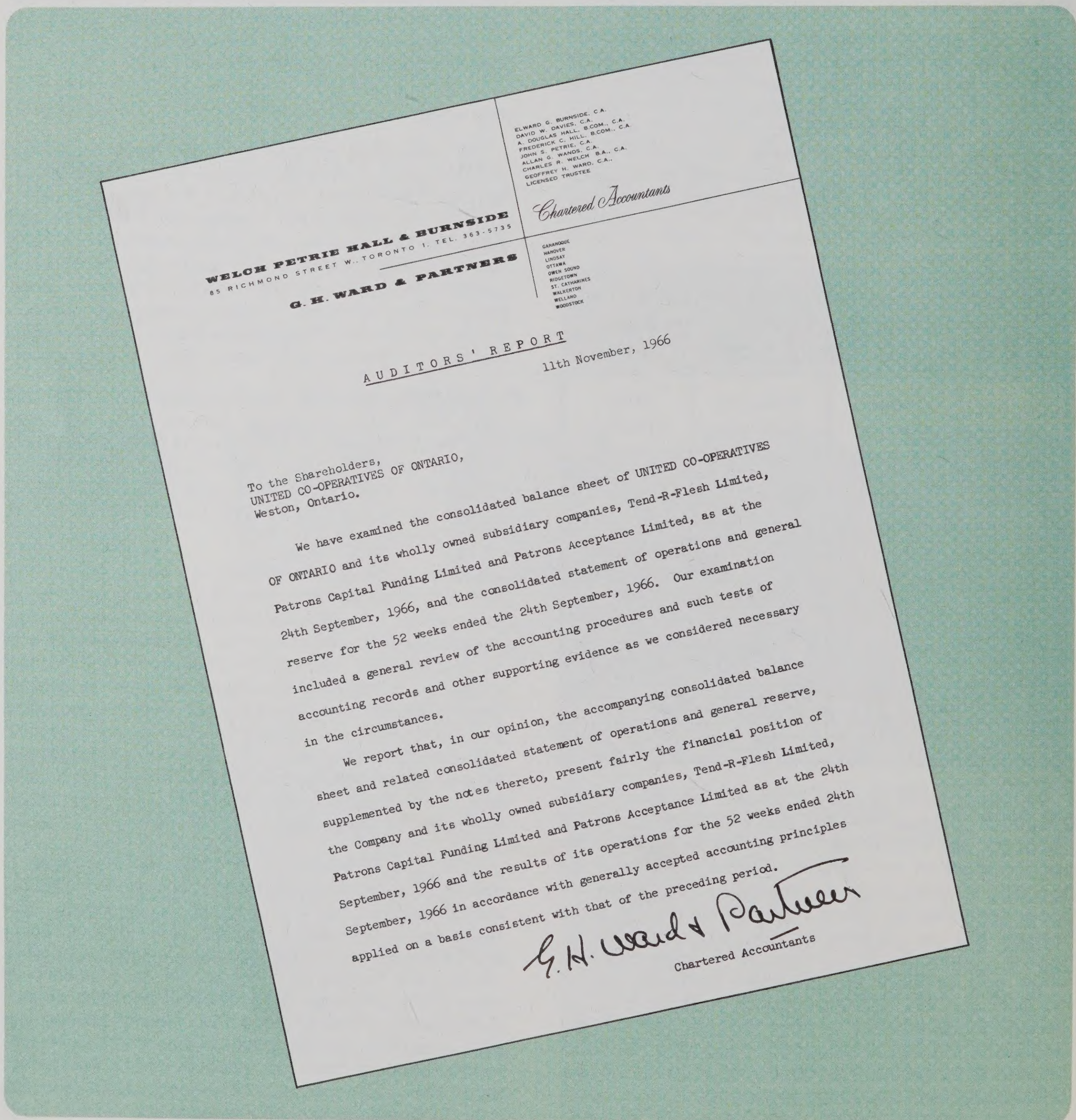
It is most encouraging that UCO has been able to maintain the percentage of shareholder equity during the past three years. But this should be increased. One sound way is to increase reserves and shares as rapidly as possible out of retained earnings. Another is to effect mergers that improve UCO equity. But in 1967 we need plans to sell the budgeted quarter million dollars of additional preferred shares, and more. Those of us who have purchased UCO preferred shares and debentures are justified in regarding these as a desirable part of our savings. Substantial additional amounts of each would be a real boost to Ontario co-operative development.

One of the changes that will become most apparent is identification of all the places of business that are owned by your provincial co-operative, with the UCO sign. Decision by Board of Management on the form of this now permits proceeding with not only the sign, but with much painting of premises. Of course the CO-OP trademark continues on major products.

We have the people and the programs for advancing Ontario co-operative business. Both elected and employed representatives of Ontario co-operatives have provided unusual effort and leadership in changing structure and programs during the past year. Confidently we enter 1967.

Leonard Harman

GENERAL MANAGER



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ST. CATHARINES
WALKERTON
WELLAND
WOODSTOCK

A U D I T O R S ' R E P O R T

11th November, 1966

To the Shareholders,
UNITED CO-OPERATIVES OF ONTARIO,
Weston, Ontario.

We have examined the consolidated balance sheet of UNITED CO-OPERATIVES OF ONTARIO and its wholly owned subsidiary companies, Tend-R-Flesh Limited, Patrons Capital Funding Limited and Patrons Acceptance Limited, as at the 24th September, 1966, and the consolidated statement of operations and general reserve for the 52 weeks ended the 24th September, 1966. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

We report that, in our opinion, the accompanying consolidated balance sheet and related consolidated statement of operations and general reserve, supplemented by the notes thereto, present fairly the financial position of the Company and its wholly owned subsidiary companies, Tend-R-Flesh Limited, Patrons Capital Funding Limited and Patrons Acceptance Limited as at the 24th September, 1966 and the results of its operations for the 52 weeks ended 24th September, 1966 in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

G. H. Ward & Partners

Chartered Accountants

a

United Co-operatives of Ontario

and Subsidiary Companies

CONSOLIDATED STATEMENT OF OPERATIONS

For the 52 weeks ended the 24th September, 1966

(With comparative amounts for the 52 weeks ended the 25th September, 1965)

$ Net retail sales
of wholesale

	1966		1965	
TOTAL VOLUME	$ 118,664,019		$ 104,682,350	
Less: Livestock handled	41,581,842		42,046,001	
SALES	77,082,177	100.0%	62,636,349	100.0%
COST OF GOODS SOLD	69,558,239		58,049,336	
GROSS MARGIN	7,523,938		4,587,013	
Commissions — Livestock	400,909		414,985	
— Grain marketing	16,037		15,128	
	7,940,884	10.3	5,017,126	8.0
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	7,230,728	9.4	4,306,950	6.9
INCOME BEFORE INCOME TAXES	710,156	.9	710,176	1.1
INCOME TAXES (Note 6)	224,100	.3	183,000	.3
NET SAVINGS FOR THE PERIOD BEFORE PAYMENT OF PATRONAGE DIVIDENDS	$ 486,056	.6%	$ 527,176	.8%
The following amounts have been deducted in arriving at net savings:				
Depreciation	$ 984,187		$ 677,799	
Directors' Fees	17,112		15,917	
Interest on long term debentures and other long term debt	407,475		350,442	
Interest on short term loans	552,574		364,771	
Investment income, deducted from general and administrative expense	279,303		209,352	

prof before income tax

Profit after income tax

CONSOLIDATED STATEMENT OF GENERAL RESERVE

	1966	1965
Balance at beginning of year	$ 1,846,910	$ 1,623,148
Add: Net savings for the year after income taxes	486,056	527,176
Adjustment relating to the acquisition of net assets of Tend-R-Flesh Limited	—	216,149
Credit arising from revaluation and collection of branch accounts receivable	898,563	—
	3,231,529	2,366,473
Less: 1965 patronage returns	384,427	506,989
Dividend on preference shares	1,489	12,574
	385,916	519,563
Balance at end of year	$ 2,845,613	$ 1,846,910

See the accompanying notes to these financial statements.

United Co-operatives of Ontario

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

At 24th September, 1966

(With comparative amounts at 25th September, 1965)

ASSETS

CURRENT ASSETS	1966	1965
Cash	$ 121,337	$ 93,455
Accounts receivable less $806,782 allowance for doubtful accounts (1965—$668,410)	12,049,489	8,351,801
Current portion of investments and deferred accounts receivable	299,165	239,368
Merchandise inventories valued at the lower of cost or replacement cost	6,167,861	4,713,655
Prepaid expense and supplies	477,251	298,912
Total current assets	19,115,103	13,697,191
DEFERRED ACCOUNTS RECEIVABLE	95,237	278,498
INVESTMENTS — at cost (Note 2)	3,197,675	3,444,897
PROPERTY AND EQUIPMENT (Note 3)	9,190,404	6,339,897
TOTAL ASSETS	$31,598,419	$23,760,483

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES	1966	1965
Bank loan — secured	$ 8,490,339	$ 5,402,105
Notes payable and demand debentures	1,764,550	985,626
Accounts payable and accrued expenses	4,295,117	3,906,581
Current portion of long term debt	131,608	185,650
Income taxes payable	146,080	—
Total current liabilities	14,827,694	10,479,962
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (Note 6)	301,200	214,000
LONG TERM DEBT (Note 4)	7,932,801	6,617,249
Total liabilities	23,061,695	17,311,211
MEMBERS' EQUITY		
Common shares (Note 5)	3,532,751	3,748,620
Preference shares (Note 5)	2,158,360	853,742
General reserve	2,845,613	1,846,910
Total members' equity	8,536,724	6,449,272
TOTAL LIABILITIES AND MEMBERS' EQUITY	$31,598,419	$23,760,483

See the accompanying notes to these financial statements.

Approved on behalf of the Board:

F. G. CRYDERMAN, Director

R. S. McKERCHER, Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

24th September, 1966

1. PRINCIPLES OF CONSOLIDATION

The accounts of the wholly-owned subsidiary companies which are consolidated, Patrons Capital Funding Limited, Patrons Acceptance Limited and Tend-R-Flesh Limited, the latter being a non-operating subsidiary, are as at the 24th September, 1966.

2. INVESTMENTS

a) Investment in non-consolidated subsidiaries	$ 30,250
b) Other investments	3,167,425
	$3,197,675

a) The assets, liabilities, income and expenses of Twin Pines Apartments Limited, a wholly-owned subsidiary and Co-operators Insurance Agency Limited, in which United Co-operatives of Ontario holds a sixty-eight percent ownership, have not been consolidated in the attached financial statements because of the dissimilar nature of their operations. Savings of Twin Pines Apartments Limited for the fiscal year ended 31st March, 1966 were $3,611, and the aggregate savings since acquisition are $6,745. The book value of shareholders' equity at the 31st March, 1966 was $198,731. United Co-operatives of Ontario's proportion of the savings of Co-operators Insurance Agency Limited for the fiscal year ended 31st December, 1965 was $1,186, and the aggregate savings since acquisition is $36,617. The book value of their proportion of shareholders' equity at 31st December, 1965 was $36,867.

None of the savings of these unconsolidated subsidiaries has been taken into income of United Co-operatives of Ontario except for a dividend amounting to $2,565 received from Twin Pines Apartments Limited.

b) Other investments consist of:	*24th September 1966*	*25th September 1965*
Shares in other companies	$ 629,096	$ 508,484
Loans to other companies	164,204	150,961
Debentures — 5%	490,000	490,000
Loans for local co-op facilities	344,718	328,608
Properties	409,475	501,118
Mortgages	1,408,597	1,641,144
	3,446,090	3,620,315
Less: Current portion included under current assets	278,665	205,668
	$ 3,167,425	$ 3,414,647

Details of investments in mortgages are:

	5¼%	*6%*	*7%*	*Total*
First Mortgages				
Due 1966-1969			$ 49,925	
1971-1975		$ 55,700	51,731	
1980-1983	$ 841,143	62,049		
	841,143	117,749	101,656	$ 1,060,548
Second Mortgages				
Due 1966-1968		9,980	11,927	
1971-1975		48,500	120,493	
1976-1983		91,359		
		149,839	132,420	282,259
Other Mortgages				
Due 1974-1976			73,890	73,890
	$ 841,143	$ 267,588	$ 307,966	1,416,697
Mortgage Reserve				8,100
				$ 1,408,597

3. PROPERTY AND EQUIPMENT

	24th September 1966	25th September 1965
Assets — at cost		
Land	$ 479,099	$ 396,922
Buildings	6,040,842	4,553,222
Machinery and equipment	5,941,411	4,543,344
Automobiles and trucks	1,873,473	1,078,968
	$14,334,825	$10,572,456
Accumulated depreciation		
Buildings	$ 1,205,234	$ 1,005,393
Machinery and equipment	3,213,494	2,663,428
Automobiles and trucks	725,693	563,738
	$ 5,144,421	$ 4,232,559
Net Book Value	$ 9,190,404	$ 6,339,897

4. LONG TERM DEBT

Details of amounts outstanding were:

Debentures	4%	4½%	5%	5½%	6%	Total
1968		$ 10,800			$ 10,650	$ 21,450
1969	$ 1,700	1,300			20,250	23,250
1970					872,650	872,650
1971					1,203,950	1,203,950
1972			$ 146,300	$ 14,400	54,200	214,900
1973			229,020		500	229,520
1974			152,550			152,550
1975			140,400	61,450	2,628	204,478
1976			254,800	32,100	460,625	747,525
1977			539,300		35,700	575,000
1978			402,000		18,500	420,500
1979			117,500		16,000	133,500
1980					439,200	439,200
1981					373,530	373,530
1982				110,400	159,498	269,898
1983				57,000	54,750	111,750
1984				117,100	64,324	181,424
1985				37,700	424,997	462,697
1986					367,855	367,855
1987					14,300	14,300
1988					18,500	18,500
1989					21,000	21,000
1990					2,500	2,500
	$ 1,700	$ 12,100	$ 1,981,870	$ 430,150	$ 4,636,107	$ 7,061,927
1978 Compound debentures — 6%						131,613
						$ 7,193,540

Mortgages		
Province of Ontario		
4% due 1967-1971	$ 17,500	
5% due 1968-1979	82,584	
6% due 1971-1984	401,613	
	$ 501,697	
Less: Principal repayments due within one year	49,444	452,253
Other Mortgages		
6% due 1967-1972	$ 111,072	
8% due 1973	200,000	
	$ 311,072	
Less: Principal repayments due within one year	24,064	287,008
TOTAL LONG TERM DEBT		$ 7,932,801

During the year, new debentures totalling $1,282,141 were issued and debentures totalling $163,400 were redeemed.

5. SHARE CAPITAL

Authorized

	No. of Shares	Amount
Preference Shares		
Class "A" 5 percent, cumulative, non-voting, preference shares with a par value of $10 each, redeemable at par	500,000	
Redeemed during the year	9,864	
	490,136	$ 4,901,360
Class "B" 4 percent, cumulative, non-voting, preference shares with a par value of $10 each, redeemable at par	500,000	
Redeemed during the year	543	
	499,457	4,994,570
Common Shares		
Co-op common shares with a par value of $10 each, redeemable at par:		
Balance authorized at 25th September, 1965	1,486,897	
Redeemed during the year	41,946	
Balance authorized 24th September, 1966	1,444,951	14,449,510
		$24,345,440

Changes during the year in shares issued and outstanding were as follows:

Preference Shares		
Class "A"		
Outstanding 25th September, 1965	85,578	$ 853,742
Issued during the year		
For cash		
Fully paid	43,453	434,530
Part paid	326	1,254
	43,779	435,784
For net assets acquired from local co-operatives:		
Fully paid	89,055	890,550
Part paid	2,594	11,645
	91,649	902,195
	221,006	2,191,721
Redeemed during the year:		
Fully paid	9,759	97,590
Part paid	105	524
	9,864	98,114
Outstanding at 24th September, 1966	211,142	$ 2,093,607
Class "B" shares issued		
For cash	2	$ 20
For net assets acquired from local co-operatives:		
Fully paid	6,943	69,430
Part paid	147	733
	7,090	70,163
	7,092	70,183
Redeemed during year:		
Fully paid	543	5,430
Outstanding at 24th September, 1966	6,549	$ 64,753
Common Shares		
Outstanding at 25th September, 1965	377,667	$ 3,748,620
Issued during the year:		
For settlement of patronage returns:		
Fully paid	19,056	190,560
Part paid	598	1,664
For cash		
Fully paid	624	6,240
Part paid	286	1,728
	398,231	3,948,812
Less: Redeemed during the year		
Fully paid	41,438	414,380
Part paid	508	1,681
	41,946	416,061
Outstanding at 24th September, 1966	356,285	$ 3,532,751

The net assets of local co-operatives acquired during the year were as follows:

Accounts receivable	$ 2,082,453	
Inventories	1,705,682	
Fixed assets	2,078,021	
Other assets	277,196	
		$ 6,143,352
Current liabilities	1,571,064	
Long term liabilities	886,075	
		2,457,139
Purchase price		$ 3,686,213

The consideration for the purchase was:

Offset of amounts owing to United Co-operatives of Ontario		$ 2,534,836
Debentures		285,612
Preference shares — Class "A"		902,195
— Class "B"		70,163
		3,792,806
Less: Shares redeemed, held by local co-operatives as follows:		
Common shares held by local co-operatives	$ 809,501	
Common shares distributed by local co-operatives to members	702,908	
Balance redeemed		106,593
		$ 3,686,213

6. INCOME TAXES

The income taxes payable in respect of the year ended 24th September, 1966 amount to $146,080. The difference of $78,020 between this amount and the taxes charged against income results from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. This difference is applicable to those future periods in which the amounts claimed for tax purposes will be less than the depreciation recorded in the accounts and is, accordingly, included in the balance sheet in the item "Accumulated Tax Reductions Applicable to Future Years".

7. PATRONAGE RETURNS AND DIVIDENDS ON PREFERENCE SHARES

In November, 1966 the Board of Directors authorized the provision of a patronage refund to members of $308,317 and payment of dividends on preference shares of $64,927.

8. COMMITMENTS AND CONTINGENCIES

	24th September 1966	*25th September 1965*
Common shares to be redeemed	$209,180	$276,950
Uncalled balance of shares subscribed for in other companies	210,900	213,750

9. ACQUISITION OF LOCAL CO-OP FACILITIES

During the year United Co-operatives of Ontario acquired the assets and assumed the liabilities of twenty-three local co-operatives. The businesses previously conducted by the local co-operatives have been carried out since the acquisition dates as branch operations of United Co-operatives of Ontario.

STATEMENT OF PATRONAGE RETURNS TO MEMBERS

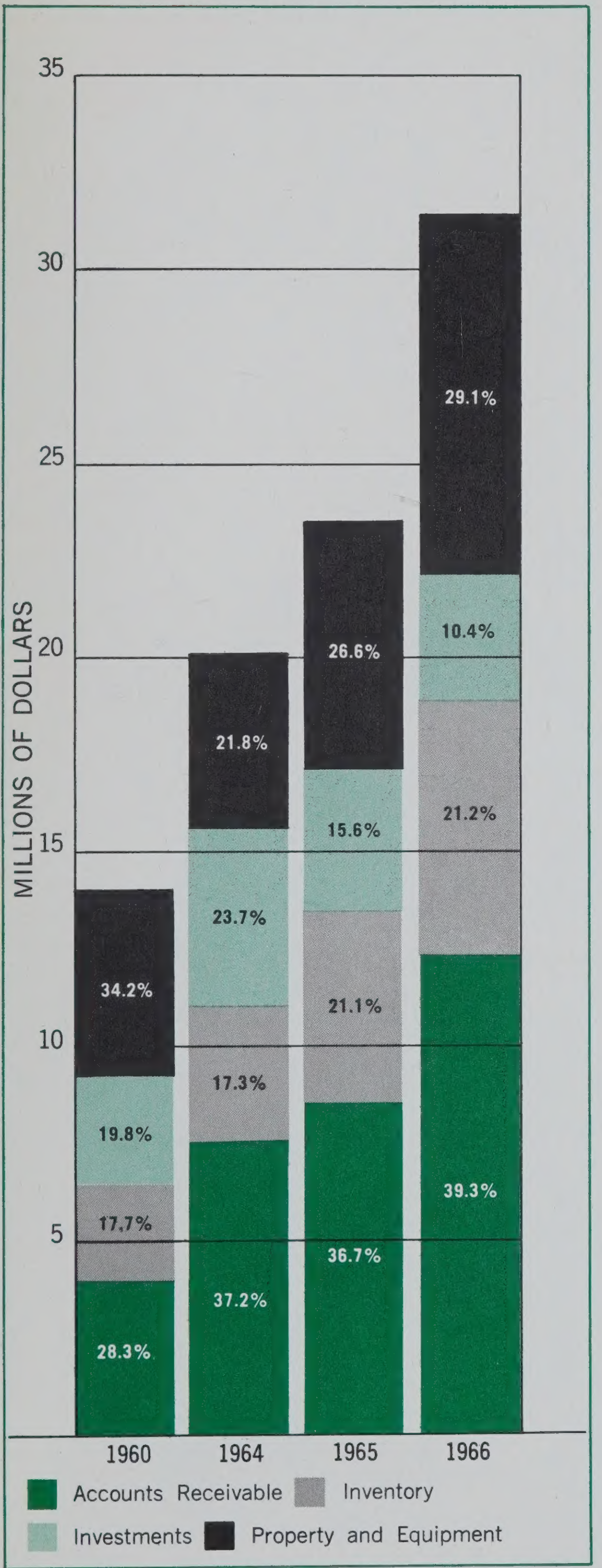
For the 52 weeks ended the 24th September, 1966

(With comparative amounts for the 52 weeks ended the 25th September, 1965)

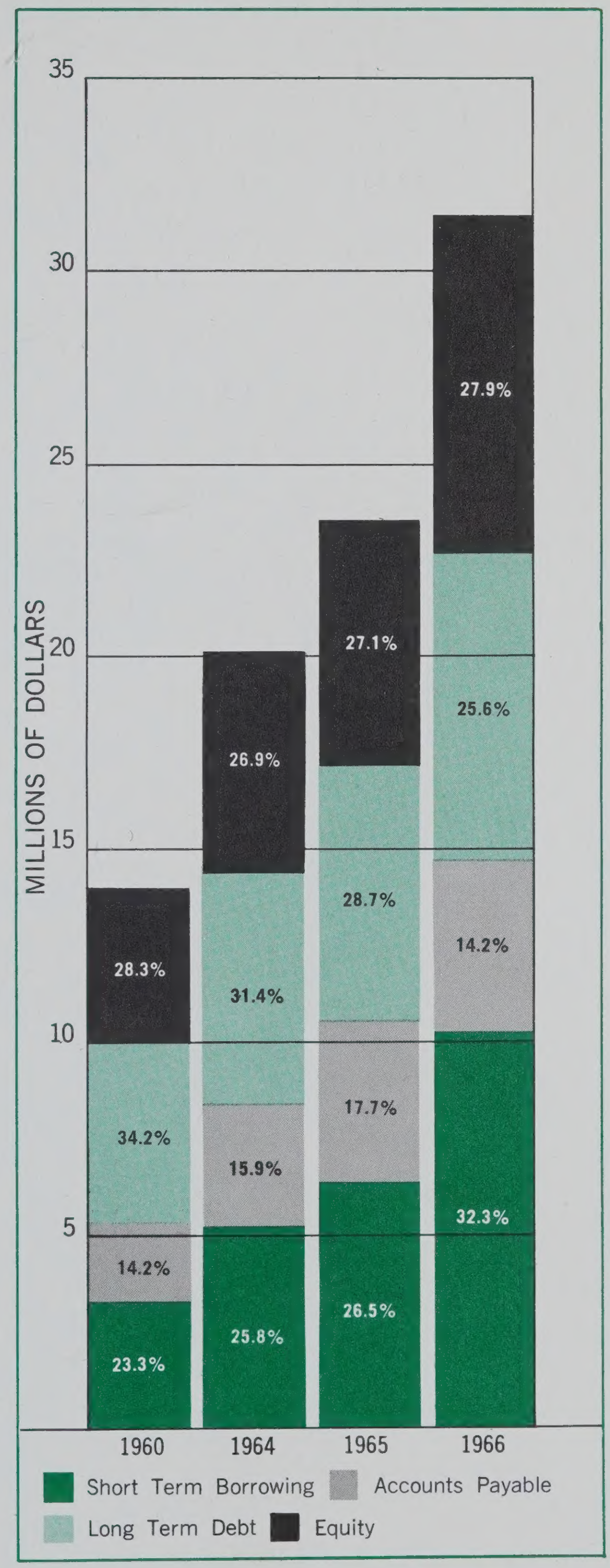
	1966	1965
Hardware	**$ 16,766**	**$ 36,874**
Gasoline and heating oils	**98,009**	**153,849**
Lubricating oils and greases	—	**8,204**
Propane	**3,703**	**6,749**
Balanced and broiler feeds	—	**24,396**
Premix, concentrates, feeding oil and animal health	**73,315**	**81,869**
Agricultural chemicals	—	**8,978**
Seed	—	**11,790**
Grain	**12,245**	**32,456**
Livestock	—	**6,900**
Grain marketing	—	**7,537**
Retail	**104,279**	**4,825**
TOTAL	**$308,317**	**$384,427**

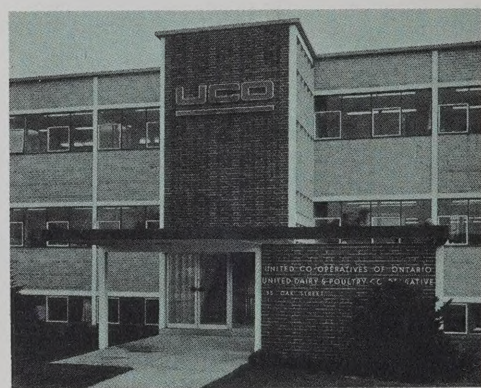
Balance Sheet Comparisons

TOTAL ASSETS



TOTAL LIABILITIES





A NEW SYMBOL IS DEVELOPED

The UCO on the front cover, in red and green, is the new identification symbol for United Co-operatives of Ontario. We are now retailing farm supplies and consumer goods and services — a relatively new function for us. The symbol is designed to distinguish our facilities from those of other companies.

You will still see the familiar CO-OP trade mark on quality CO-OP products sold by United Co-operatives of Ontario and other retail co-operatives in Ontario.

UNITED CO-OPERATIVES OF ONTARIO / 35 OAK STREET / WESTON / ONTARIO